

# £250m Future Fund to Support Innovative UK Businesses

The Future Fund, announced by the Chancellor on 20 April, will be open for applications from Wednesday 20 May.

The Future Fund will provide convertible loans ranging from £125k to £5m to UK based companies, subject to at least equal matched funding from private investors. The Government has made an initial £250m available for the fund and will keep this amount under review.

The new fund will support innovative UK companies currently affected by COVID-19, with good potential, that are essential in ensuring the UK retains its world leading position in science, innovation and technology. Until now, these companies have been unable to access other government support programmes because they are either pre-revenue or pre-profit.

The scheme is initially open for applications until the end of September 2020.

## Scheme features and details

|                                  |   |
|----------------------------------|---|
| Loan amount                      | <ul style="list-style-type: none"><li>• The Future Fund will provide convertible loans ranging from £125k to £5m.</li><li>• Government loans must be at least matched by co-investment from third-party investors.</li><li>• The minimum aggregate loan amount available is therefore £250k, with no maximum - since there is no upper limit to the amount that private investors may co-invest.</li></ul>  |
| Convertible loans                | <ul style="list-style-type: none"><li>• Unlike equity investments, there is no requirement under the convertible loan to value the company or the price of its shares, at a time when company valuations have been significantly impacted by COVID-19.</li><li>• There is no requirement for a company to make regular repayments. Instead, the convertible loans will convert into equity at the next funding round or exit, when an equity value can be negotiated between companies and investors.</li></ul> |
| Interest rate                    | <ul style="list-style-type: none"><li>• The loans will have a minimum of 8% per annum (non-compounding) interest charge applied.</li><li>• Interest will be higher if the company and the investor(s) agree between themselves.</li><li>• Unlike a typical bank loan, the interest is not payable on a monthly basis and instead will accrue until the loan converts. At this point, the interest will either be repaid or convert in equity.</li></ul>   |
| Term                             | <ul style="list-style-type: none"><li>• The loan will mature after 36 months.</li><li>• The loan cannot be repaid early by the company other than with the agreement of all investors.</li></ul>  |
| Use of proceeds                  | <ul style="list-style-type: none"><li>• Funding must not be used to:<ul style="list-style-type: none"><li>○ repay any borrowings</li><li>○ pay any dividends</li><li>○ pay any bonuses</li><li>○ pay any advisory fees</li></ul></li></ul>  |
| Investor-led application process | <ul style="list-style-type: none"><li>• An investor, or lead investor of a group of investors, applies in connection with an eligible company.</li><li>• As this is not a matching service, each company seeking funding must have already identified investors to contribute the matched funding amount.</li></ul>   |
| Standardised terms               | <ul style="list-style-type: none"><li>• Investors and the Future Fund both invest using a convertible loan agreement, which is predefined and non-negotiable.</li></ul>   |

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## To be eligible for the scheme, the company must meet the following criteria:

- The company must have raised at least £250k in equity from third-party investors in previous funding rounds in the last five years (from 1 April 2015 to 19 April 2020, inclusive).
- If the company is a member of a corporate group, it must be the ultimate parent company.
- The company must not have any of its shares or other securities listed on a regulated market, a multilateral trading facility, a recognised investment exchange and/or any other similar market, stock exchange or listing venue.
- The company must be a UK incorporated limited company.
- The company must have been incorporated on or before 31 December 2019.
- At least one of the following must be true for the company:
  - Half or more employees are UK based
  - Half or more revenues are from UK sales

## The investor must fall within any of the following categories:

- An “investment professional” within the meaning given to that term in article 19 of the FPO.
- A high net worth company, unincorporated associated or high value trust falling within article 49(2) of the FPO.
- A “certified sophisticated investor” or a “self-certified sophisticated investor” within the meaning given in articles 50 and 50A respectively of the FPO.
- A “certified high net worth individual” within the meaning of article 48 of the FPO.
- An equivalent professional, high-net worth, institutional or sophisticated investor in accordance with applicable law and regulation in such investor’s home jurisdiction.
- An association of high net-worth or sophisticated investors within the meaning of article 51 of the FPO.
- Capable of being classified as a “professional client” within the meaning given in the glossary to the FCA Rules.
- Note that all other investors must fall within one of the above categories in order for them to be eligible to invest in the convertible loan agreement. It is the responsibility of other investors to ensure they are eligible.

*“FPO” - Financial Services and Markets Act 2000 (Financial Promotion) Order 2005*

*“FCA Rules” - FCA’s handbook of rules and guidance*

**If you would like to set up a call to discuss the Future Fund in more detail, or would like to understand the most appropriate funding options available and best practice in presenting your COVID-19 plan to your stakeholders, please contact a member of the team.**

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